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China Economics Update: Credit growth edges up on government borrowing; PPI eases, but food prices accelerate more than expected

中国经济评论: 政府融资推动社融增速小幅回升; 工业价格回落, 食品价格加速上升

信贷增速受政府融资推动小幅上升。11月中国社会融资总额(TSF)同比增长10.1%,较上月小幅回升,信贷增速继续呈现企稳迹象。新增政府债券发行强劲,是本月信贷增速小幅上行的主要驱动因素,影子银行活动仍在收缩。私人部门的信贷增长温和放缓。

PPI通胀如预期放缓,食品通胀加速上行。由于近期国内政策措施抑制了原材料价格上涨,加上全球大宗商品价格涨幅有所放缓,近月来对PPI上涨贡献最大的上游价格有所回落。然而食品价格环比加速上涨,推动了本月CPI上行,但上行幅度被服务价格拖累。

政策预计进一步宽松,关注价格压力。政治局会议释放的政策信号表明,来年稳增长将会是经济政策重点。财政发债支持跨年社融增长,存款准备金率可能进一步下调,但价格压力将是大规模放松流动性的制约,近几个月的食品价格的加速上涨尤其值得关注。

Credit growth edges up on government borrowing. China saw another sign of stabilization in the form of total social financing (TSF), which rose 10.1% YoY in Nov, up slightly from the month before. Strong net issuance in government bonds was the main driver as shadow banking continued to diminish. Credit growth to the private sector eased along with bank lending.

PPI inflation eases as expected, food CPI accelerates. Upstream prices, which contributed most to the surge in PPI, eased in the recent month owing to domestic policy measures to contain rising prices in raw materials and the slowing rise in global commodity prices. Food prices, meanwhile, continued to accelerate, contributing to rising CPI, though the rise was offset by a contraction in services prices.

Easing policy stance expected, while price pressure is noteworthy. The latest Politburo meeting suggests that stable growth will be a priority next year. Government bond issuance is expected to provide support to credit growth entering next year, while RRR could be cut further. However, price pressure is likely to remain a constraint for large-scale monetary easing. The acceleration in recent months' food prices is noteworthy.

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TSF continues to show signs of stabilization, details still mixed

Total social financing rose 10.1% YoY in Nov 2021, up 0.1ppt from Oct as the credit slowdown since Mar has since stabilized. New TSF increased by RMB2.61t, slightly lower than market consensus expecting RMB2.69t. Of the total, new loans underperformed, coming in at RMB1.27t (CCBIS: RMB1.7t, cons: RMB1.5t). Other components were mixed, shadow banking continued to contract, while government and corporate bond new borrowing improved since last month (Fig 1).

In particular,

- **New yuan loans** increased by RMB1.27b, lower than either our or the market expectation. Medium- and long-term (ML) loan growth eased 0.4ppt to 12.9% YoY. Mortgage lending growth stabilized at 14.8% YoY, but ML loan growth of the corporate sector slowed notably by 0.6ppt to 11.9% YoY. Short-term and bill financing increased from the prior month and in YoY terms.
- **Outstanding corporate bonds** grew 7.7% YoY, the highest pace of growth since May this year. This was accompanied by improvements in net domestic corporate bond issuance of RMB 410b in Nov, about 2.5x the past two-month average.
- **Total renminbi loans and corporate bonds**, which represent credit to the private sector, rose 11.2% YoY in Nov, down slightly from Oct, of which renminbi loans moderated 0.2ppt to 11.7%.
- **Government borrowing**, including outstanding CGB and LGB, grew 15.1% YoY, 0.8ppt higher than the month before, driven by accelerating local government bond issuance, up 17.4% YoY or 2.9ppt.
- **Shadow banking** items (entrusted + trust + bills) declined 12.8% YoY, a 0.4ppt decline from Oct. Despite still being a drag on overall TSF growth, the drag was mainly from faster deceleration of trust (-29.3% YoY vs. -27.6% YoY), likely reflecting the continued squeeze in the property funding channel.

M2 growth rises. M2 grew 8.5% YoY in Nov, lower than estimates (CCBIS: 8.8%, cons: 8.7%). M1 growth ticked up 0.2ppt to 3.0% YoY. The development of M2 was consistent with easing new loans compared with the same time last year (Fig 3).

PPI eases, CPI inflation accelerates on higher food prices

China's Nov factory price inflation eases. PPI inflation came in at 12.9% YoY in Nov, in line with our expectation of 12.8% YoY, but much higher than market consensus for 11.7% YoY. With the government recently implementing policy measures to strengthen supply and curb price surges in coal and industrial metals, PPI sequential growth was flat in Nov. After surging by an average of 1.6% MoM in the past two months, coal prices contracted 4.9% MoM in Nov while PPI for ferrous and non-ferrous metals declined 4.8% MoM and 1.2% MoM, respectively, contributing to easing PPI.

CPI inflation picks up on rising food prices, but headline kept in check by services. Consumer prices rose 2.3% YoY (CCBIS: 3.0%, cons: 2.5%), from 1.5% YoY in Oct. Food prices accelerated 2.4% MoM, exhibiting their highest sequential growth in nine months driven by fresh foods. Within the category, pork prices turned positive sequentially for the first time since Feb, rising 12.2% MoM. That said, compared with last year, pork prices are down 32.7% YoY. Overall, food contributed 0.3ppt to headline CPI in YoY terms. Fuel prices continued to rise, albeit at a slower pace, consistent with the global commodity price trend. Core CPI inflation, excluding food and energy, contracted 0.2% MoM, primarily due to sluggish demand in services. Heightened pandemic controls, in place since mid-Oct, are continuing to have an effect on the CPI of tourism and outgoing items, which contracted 3.5% MoM in Nov after a modest uptick in Oct.

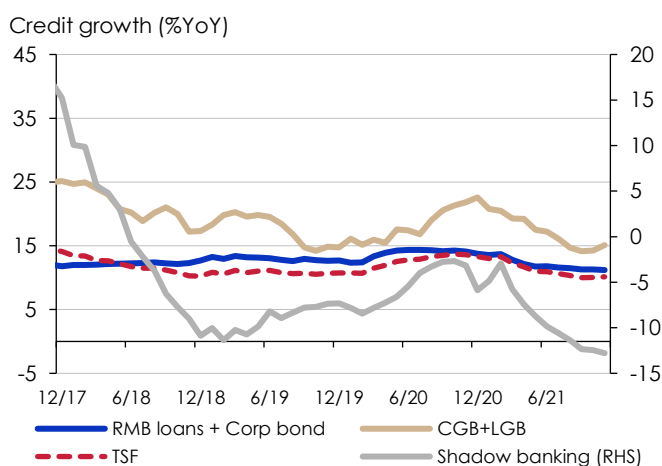
Our view

PPI to ease but stay elevated, limited feedthrough to CPI this year. Recent policy measures on containing upstream price pressure began to show results in Nov; however, factory prices are likely to remain elevated until 1Q22F, partly due to the base effect. Although headline CPI currently remains contained amid weak domestic consumption demand, the acceleration in food prices since Oct is noteworthy (Fig 3). Nov data suggests a turn in pork prices, though it still needs sometime to rising positively in YoY terms. Nonetheless, the impact of food prices on headline CPI inflation could be more pronounced in 2022F. We still expect CPI to average around 1% YoY for full-year 2021F and 2.9% in 2022F ([CCBIS – Big Picture 2022 Macro Outlook](#), Dec 2021). The wide PPI-CPI gap suggests still-limited passthrough of upstream prices to the mid- and downstream this year (Fig 4).

Today's credit data confirms that marginal easing bias in recent months is contributing to the stabilization in overall credit growth. We see this in the pickup in government bond issuance, which had lagged in 1H21. Meanwhile, stabilization in mortgage lending has been observed, though bank lending to corporates and still contracting shadow banking, particularly trusts, suggests that credit easing remains selective.

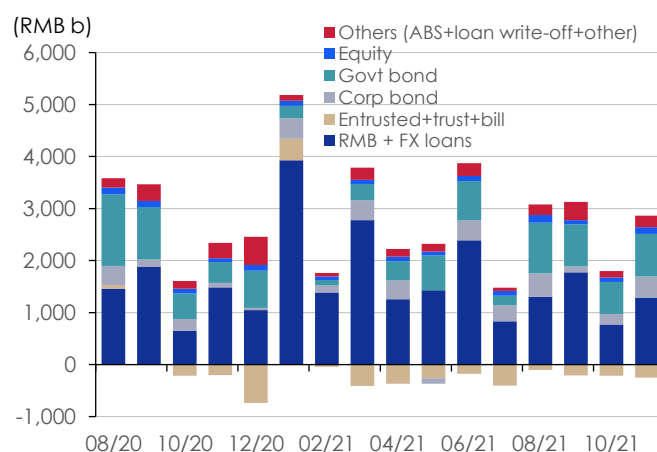
Latest Politburo meeting signals pro-growth policy stance next year. This week's Politburo meeting signals a more supportive policy stance for next year. On the same day, the PBOC delivered a 50bp RRR cut to financial institutions ([CCBIS–China Economic Update](#), Dec 2021). We believe policy adjustments are tilting towards supporting growth. We expect liquidity supply to alleviate pressure building up in the financial market due to the property sector. In our view, a further RRR cut is likely in 1Q next year. Nonetheless, as today's data suggests, price dynamics remain the key constraint to monetary policy next year. While PPI is likely to ease, higher CPI driven by gradual feedthrough on cost pressure, especially a possible turn in the pork cycle next year, and improving domestic consumption will pose a challenge to liquidity easing.

Fig 1: TSF growth ticks up in Nov on rising government bond issuance



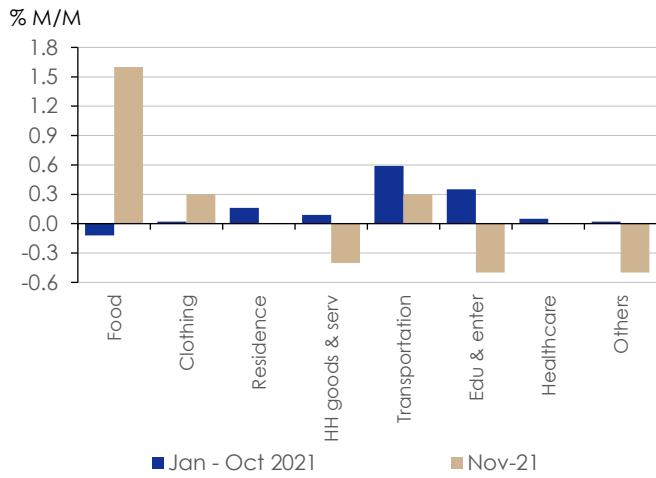
Source: CEIC, CCB

Fig 2: New loans pick up from past month on seasonality, but remain below the level in Nov 2020



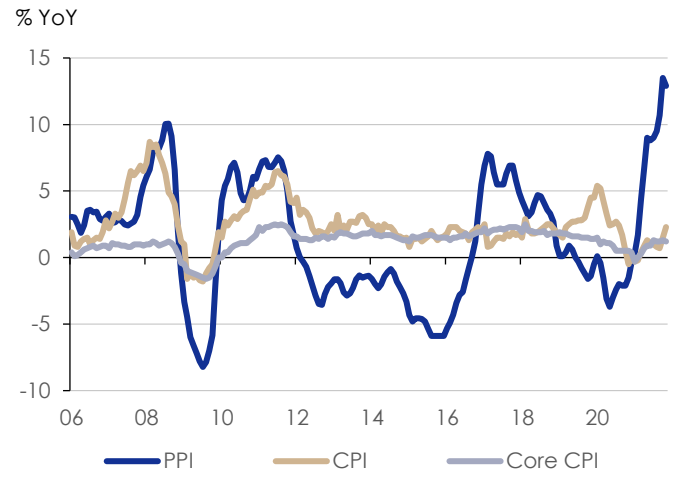
Source: CEIC, CCB

Fig 3: Food prices accelerated further in Nov, though still weak domestic demand kept core CPI muted



Source: CEIC, CCB/

Fig 4: PPI inflation surged this year, but had limited impact on CPI so far



Source: CEIC, CCB/

Rating definitions:**Outperform (O) – expected return > 10% over the next twelve months****Neutral (N) – expected return between -10% and 10% over the next twelve months****Underperform (U) – expected return < -10% over the next twelve months****Analyst certification:**

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